

REPORT TO AUDIT COMMITTEE – 20 MAY 2021

EXTERNAL AUDIT – OUTSTANDING RECOMMENDATIONS

1 Reason for Report / Summary

- 1.1 The report advises the committee of progress made by the council in implementing recommendations agreed as part of the 2018/19 and 2019/20 audits.

2 Recommendations

The Committee is recommended to:

- 2.1 discuss and comment on this report.**

3 Purpose and Decision Making Route

- 3.1 The recommendations have been collated and will continue to be reported until all the actions have been addressed.
- 3.2 The report was shared with the Director of Business Services and Head of Finance for comment and feedback.
- 3.3 The external auditor's main engagement with the council is through the Audit Committee.

4 Discussion

- 4.1 Appendix 1 sets out the recommendations agreed as part of the 2018/19 and 2019/20 audits with an update for action taken by the council. Where appropriate, revised target dates have been included where actions have yet to be implemented.

5 Council Priorities, Implications and Risk

- 5.1 The work of external audit is relevant to all of the Council's Priorities. It aims to provide assurance over the appropriateness and effectiveness of the council's arrangements in respect of four audit dimensions - financial sustainability, financial management, governance and transparency, and value for money.
- 5.2 The table below shows whether risks and implications apply if the recommendation is agreed.

Subject	Yes	No	N/A
Financial		X	
Staffing		X	
Equalities		X	
Fairer Scotland Duty		X	
Town Centre First		X	
Sustainability		X	
Children and Young People's Rights and Wellbeing		X	

5.3 An equality impact assessment is not required because this report informs the Committee of the planned scrutiny activity to be carried out by external audit and does not have a differential impact on any of the protected groups.

5.4 The external audit process considers financial statement risks and wider audit dimension risks. Any audit risks identified are detailed in the external auditor's interim management report normally each July and annual audit report normally each September. Due to the impact of Covid-19, the auditor's Annual Audit Report in respect of 2020/21 is scheduled to be submitted to the Audit Committee in November 2021. Recommendations are made to address the identified risks and follow up work is undertaken to assess progress against agreed management actions. Follow up activity and progress against actions is also routinely reported to the Audit Committee.

6 Scheme of Governance

6.1 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

6.2 The Committee is able to consider/comment on this item in terms of Section G.1.5 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to the Council's relationship with its external auditors

Ritchie Johnson
Director of Business Services

Report by Anne MacDonald, Senior Audit Manager, Audit Scotland
Date: 5 May 2021

Appendix 1 – External Audit - Outstanding Audit Recommendations

Aberdeenshire Council

External Audit – Outstanding audit recommendations



Introduction

In accordance with Audit Scotland's Code of Audit Practice, we prepare an Annual Audit Report which sets out the conclusions of our work in respect of the audit of the financial statements and wider scope dimensions. The report will make recommendations for improvement where risks have been identified and these are intended to be focused on public interest. An Interim Report is also prepared during the audit which brings together our conclusions on the council's key financial systems and internal controls.

Financial year 2019/20 was the fourth year of our audit appointment. We made nine recommendations through our interim and annual reports.

This report provides an update on each of those recommendations. In addition, we have included a further update on nine recommendations from the 2018/19 audit which remained open when we closed the 2019/20 audit. Where work is ongoing, we will comment on progress as part of our Annual Audit Report in November 2021 and provide the Audit Committee with a further progress update in May 2022.

Four out of the nine 2019/20 recommendations related to matters arising from the audit of the annual accounts. We will consider these matters as part of our audit of the 2020/21 annual accounts and report the outcome to the Audit Committee in November 2021. Of the other five recommendations, one has been implemented and the other four remain outstanding.

Five out of the nine external audit recommendations originally made in September 2019 were either repeated in the Best Value Assurance Report in October 2020 or emerged as actions from the council's 2019/20 'How good is our governance' self-evaluation activity. One of those actions is now complete and two will be carried into 2021/22 and assessed as part of next year's audit. While there has been good progress on the other two, there is more work to do.

Of the final four recommendations, one has been implemented, there has been improvement in another with further work still to do, one relates to the annual accounts which we will consider over the summer and one remains outstanding.

Anne MacDonald,
Senior Audit Manager, Audit Scotland
May 2021

Progress against outstanding recommendations

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
1	2019/20 Final	<p>Internal transactions – reallocation of expenditure</p> <p>The process for identifying reallocations of expenditure was complex and the audit trail was difficult to follow due to the volume of transactions involved.</p> <p><i>Risk: Information is omitted or incorrectly accounted for leading to misstatements in the accounts.</i></p> <p>The process should be reviewed and streamlined.</p>	<p>The current process is very detailed and labour intensive. This will be reviewed and streamlined and if possible automated.</p> <p>Head of Finance</p>	31/3/2021	<p>The planned changes have not been fully achieved for 2020/21. Much of these internal transactions relate to internal service delivery and require service input to understand how to accurately reflect the nature of the movement. The streamlining process will continue into 2021/22 with input from Directorate Teams</p>	<p>Internal transactions will be reviewed as part of the audit of the 2020/21 annual accounts. We will report the outcome to the Audit Committee in November 2021.</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
4	2019/20 Annual Audit Report	<p>Management Commentary</p> <p>There were significant gaps in the Management Commentary included in the unaudited accounts.</p> <p><i>Risk: The commentary falls short of the required guidance leading to a modified opinion.</i></p> <p>The process for the preparation of the Management Commentary requires review to ensure the document complies with Scottish Government guidance and the Code of Practice on Local Authority Accounting.</p>	<p>This will be reviewed as part of the 2020/21 accounts process.</p> <p>Head of Finance</p>	30/06/2021	<p>In separate meetings with the director of business services and his team, and the council's strategic leadership team (SLT), external audit has taken the opportunity to emphasise that the management commentary should be 'owned' corporately and have sign off by SLT.</p> <p>External audit is required to give an opinion on whether the management commentary meets the requirements of relevant statutory guidance. This year, there is an expectation that the management commentary will tell Aberdeenshire's 'Covid story'.</p>	<p>The management commentary will be reviewed as part of the audit of the 2020/21 annual accounts. We will report the outcome to the Audit Committee in November 2021.</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
5	2019/20 Annual Audit Report	<p>Review and scrutiny of Education and Children's Services' (ECS) budget</p> <p>In view of the ECS budget overspend, the balance on the Devolved Education Management reserve was released as partial mitigation. There are a number of budgets which are under pressure but due to the limited information provided in monitoring reports, the level of scrutiny is not sufficiently robust.</p> <p><i>Risk: Policy committees are unable to effectively scrutinise the budgets for which they are responsible.</i></p> <p>In response to the overspend incurred by Education and Children's Services, there should be a review of the budgets to identify and address the pressure points. As part of the process, elected members need to receive more robust budget monitoring reports in a timely manner in order that effective scrutiny arrangements can be put in place. Thereafter, the new arrangements should be extended to all committees.</p>	<p>Finance will work with ECS to better reflect current service delivery. It is anticipated that this will result in an increased number of lower value budgets presented to committee, which will allow for better budget management from a service perspective and allow for better scrutiny.</p> <p>Head of Finance</p>	31/03/2021	<p>Recommendation not yet achieved.</p> <p>For 2020/21, ECS Committee has only received financial reporting in respect of Q1 and Q2. While other committees received Q3 in January/February 2021, ECS committee did not.</p> <p>The committee met on 28/01/2021 and 18/03/2021 but did not receive any financial performance reporting on either occasion.</p>	<p>As part of our annual reporting, we comment on the council's 'openness and transparency'. We will highlight the reduced level of financial performance reporting there.</p> <p>(Also, refer Action Point PY2 on page 10)</p> <p>The recommendation itself will continue to be monitored as part of the 2021/22 audit.</p>

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6	2019/20 Annual Audit Report	<p>Internal audit annual report</p> <p>There is scope for the content of the internal audit annual report to be clearer on the key risks identified during the year and to explain how these have been considered by the Chief Internal Auditor in arriving at the annual opinion.</p> <p>Risk: there is a lack of understanding on the significance of key risks.</p> <p>Consider including additional narrative in the internal audit annual report which explains how key concerns and risks identified during the year have been considered in reaching the annual opinion.</p>	<p>The content of the Internal Audit annual report will be reviewed, including consideration of additional narrative, prior to it being presented to the Audit Committee in May 2021.</p> <p>Chief Internal Auditor</p>	31/05/2021	The action was agreed by internal audit and is to be implemented as part of the 2020/21 annual report.	<p>The annual report is due to be considered by the Audit Committee in May 2021.</p> <p>External audit will consider the content of the report as part of the review of the Annual Governance Statement.</p>
7	Interim	<p>Counter fraud strategy</p> <p>The counter fraud strategy and action plan should be reviewed and refreshed.</p>	<p>The counter fraud strategy was approved by the Business Services Committee in February 2020. Regular updates will be carried out to reflect good practice.</p> <p>Head of Finance</p>	As required	No changes were made to the strategy in the year.	<p>We continue to recommend that the strategy is refreshed to reflect the latest guidance.</p>

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8	2019/20 Interim Report	<p>Performance monitoring</p> <p>A review of the performance reporting framework should be undertaken to include the identification of milestones and targets against which progress can be effectively measured and demonstrated.</p>	<p>The council is currently reviewing its priorities which will include a refresh of the associated performance reporting framework. New reporting arrangements to be in place from April 2021.</p> <p>Director of Business Services</p>	31 March 2021	External audit understands that new performance reporting arrangements are expected to be implemented from April 2021.	<p>The recommendation will continue to be monitored as part of the 2021/22 audit.</p>

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9	2019/20 Interim Report	<p>Budget monitoring</p> <p>While the new budget monitoring reports are an improvement, more information should be provided to support and enable effective scrutiny by policy committees and provide for assurances back to full council.</p>	<p>The following planned actions will be undertaken over the period to 31 March 2021:</p> <ul style="list-style-type: none"> • budget pages and cost allocation headings to be reviewed • one Head of Service will be responsible for each budget page, and be accountable to the relevant committee • link service financial and non-financial performance information • service explanations for variances to be provided monthly through PowerBI to elected members. To be trialled initially by health and social care • the option to report by priorities is being explored. <p>There has been initial engagement between Finance and Education and Children’s Services Committee on future reporting. A programme of engagement with other committees will follow.</p> <p>Strategic Finance Manager</p>	31/03/2021	Refer to Action Point 5 on page 5 above.	Refer to Action Point 5 on page 5 above.

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
Previous Year (PY) 1	2018/19 Annual Audit Report	<p>Audit Committee – effectiveness review</p> <p>The timing is right to reflect on recent changes in the business and membership of the audit committee, to consider if it has the right impact, provides the right assurance and is operating as intended by the scheme of governance.</p> <p>An effectiveness review should be undertaken to review the operation of the audit committee against its remit within the scheme of governance but also to consider how well the committee and officers work together.</p>	<p>The review will be scoped in consultation with the Audit Committee and taken forward through a series of workshops.</p> <p>Director of Business Services</p>	April 2020	<p>Initial workshop/development session was held on 31 October 2019. The programme for the self-evaluation was discussed with the Chair and Vice Chair and it was agreed that this would take place over 2 sessions, 26 March 2020 and 21 May 2020.</p> <p>Due to the coronavirus pandemic, these sessions were postponed.</p> <p>As an alternative, committee members completed an on-line survey which formed part of the 2020 'How good is our Governance' self-evaluation report. The review covered the effectiveness of the structure, function and role of the audit committee. It also considered the conduct of meetings, engagement of committee members and the overall impact of the committee.</p> <p>There were 5 recommendations related to training, attendance at committee, internal audit reports and a committee annual report.</p> <p>The self-evaluation report was considered by the Audit committee in October 2020 and was followed by a further workshop in December 2020.</p>	<p>This was a good piece of work which should form the basis for regular review and reflection. CIPFA's position statement on audit committees states that a good committee will, at least annually, report an assessment of its performance.</p> <p>While the function of the committee was considered as part of the self-evaluation, there is scope for the audit committee to review its remit and consider if it receives sufficient assurances during the year to effectively discharge its responsibilities.</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
PY 2	2018/19 Annual Audit Report	<p>Openness and transparency</p> <p>While we have concluded that the council operates in the spirit of openness and transparency, we have identified areas for improvement e.g. to ensure there is the right mix of challenge and debate in public, to place routine information such as information bulletins in the public domain, to ensure public performance reporting is more balanced and that financial reporting provides a more rounded commentary for general consumption.</p> <p>To consider the information which the council routinely puts in the public domain outwith the formal committee process (i.e. beyond its current annual reporting activities) and to determine what more can be effectively achieved to strengthen transparency and openness arrangements.</p>	<p>A review of existing practices will be carried out and an improvement action plan agreed.</p> <p>Director of Business Services</p>	March 2020	<p>We found no evidence to suggest that information is not being made publicly available as appropriate. There was no recent use of Information Bulletins and a review of 'Ward Pages' indicated that briefing notes are being used to provide background information on, for example, legislation and regulations.</p> <p>The 2020 Annual Performance Report included a better degree of balance in its reporting than it had in previous years. The report could however be further improved by the inclusion of plans in place to address areas of poorer performance.</p> <p>External audit noted that performance pages on the council's website were not up-to-date as at April 2021.</p> <p>As stated at Action Point 5 above, there has been limited change in the council's financial reporting arrangements and a delay in reporting to Education and Children's Services Committee.</p>	<p>Overall, we noted improvement in the council's reporting with regard to openness and transparency. We will continue to monitor and report accordingly as part of our wider scope responsibilities.</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
PY 3	2018/19 Annual Audit Report	<p>Workforce planning</p> <p>The council has been slow to implement a performance framework to measure progress in delivering Council Priorities.</p> <p>Develop medium term resource plans demonstrating integrated financial and workforce capacity to provide a framework for prioritising the allocation and use of resources to deliver agreed council priorities.</p>	<p>To be developed as part of the 2020/21 budget preparations.</p> <p>Director of Business Services</p>	March 2021	<p>The implementation date for service workforce planning was revised to September 2021 when the council prepared its Corporate Improvement Plan in response to the Best Value Assurance Report.</p>	<p>We plan to comment on the general direction of travel with regard to workforce planning in November 2021 when we report on the council's progress against Best Value recommendations.</p>
PY 4	2018/19 Annual Audit Report	<p>Scrutiny</p> <p>While there have been recent workshops to discuss scrutiny and how it operates in practice, it remains unclear how committees demonstrate their scrutiny responsibilities.</p> <p>Reflect on the intention of the scrutiny arrangements implemented by the scheme of governance, consider the adequacy of the scrutiny function and whether it can be demonstrated that it helps drive improvement.</p>	<p>To review practices across committees, consider the scheme of governance and issue revised guidance as appropriate.</p> <p>Director of Business Services</p>	March 2020	<p>While Policy Committees regularly seek update reports on issues, there is limited evidence of the committees undertaking their own scrutiny. The scheme of governance indicates that each policy committee should report annually on its scrutiny activity.</p> <p>In response to a recommendation in the Best Value Assurance Report, the council will undertake a review of its scrutiny arrangements over summer 2021 and report as part of the annual review of the scheme of governance to full council in September 2021.</p>	<p>The recommendation will continue to be monitored as part of the 2021/22 audit</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
PY 5	2018/19 Interim Report	<p>User access arrangements</p> <p>Instances were noted where General Ledger system access changes were not supported by the required authorisation form. In addition, evidence of checks in respect of payroll superusers was not always retained.</p> <p>Arrangements should be reviewed to ensure that appropriate controls are in place and reminders issued to ensure checks are carried out and evidenced as intended.</p>	<p>Agreed</p> <p>Head of Finance</p>	December 2019	<p>Reminders were issued. No issues were identified during audit testing of general ledger access changes in 2020/21.</p> <p>Regular reviews are undertaken of superuser activity and a log/explanation is maintained where this has involved changes to superusers' individual files.</p>	<p>Action point complete and recommendation closed.</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
PY 6	2018/19 Interim Report	<p>Payment of care providers</p> <p>Due to differences in care prices charged on invoices and amounts agreed in care agreements, there can be lengthy delays upwards of 6 months before the council makes payments to care providers for their invoices.</p> <p>Arrangements should be put in place for the service to regularly review invoices received not yet processed, to prioritise cases for resolution and to ensure that care providers receive prompt payment.</p>	<p>Cross Service working group (which includes IJB practitioners) to understand the operation of the system, the reasons for the payment delays and establish a solution to ensure the reliability of information</p> <p>Head of Finance and IJB Chief Officer</p>	June 2020	<p>A working group was established by the service to review arrangements. While we found an improved position in 2019/20, we were also aware that the arrangements changed from March 2020 as a result of Covid-19.</p> <p>Initially, care providers received upfront block payments based on forecast care provision for 2020/21. Officers subsequently focused on reviewing actual care provided and adjusted payments or reclaimed funding as appropriate.</p> <p>Thereafter, in line with Scottish Government guidance, arrangements for sustainability payments were implemented. Care providers could make claims for the additional costs associated with Covid-19.</p> <p>External audit understands there may be a backlog in claims to be submitted at 31 March 2021 but the extent of the outstanding amounts is unclear at this stage.</p>	<p>Finance will estimate the value of outstanding claims to be accrued in the accounts and the reasonableness of the amount will be reviewed as part of the audit of the 2020/21 annual accounts.</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
PY 7	2018/19 Interim Report	<p>Counter fraud activities</p> <p>The council could increase its resilience against fraud by raising awareness of its counter fraud activities and bringing them under the umbrella of the Corporate Integrity Group.</p> <p>The corporate integrity group should be responsible for an annual counter fraud report to the audit committee covering outcomes achieved, lessons learnt, and other improvement required. It could report on both the performance and effectiveness of the counter fraud strategy (once implemented) based on the year's activities.</p>	<p>The council's Corporate Integrity Group will be responsible for completing the Fighting Fraud and Corruption Checklist, monitoring the implementation of the Fraud Risk Response Plan and compiling an Annual Report. The first annual report will be provided one year after the Counter Fraud Strategy has been agreed. The Counter Fraud Strategy is due to be considered for approval by the Business Services Committee in January 2020 following extensive consultation with the Audit Committee and Area Committees.</p> <p>Director of Business Services</p>	March 2021 and then annually.	<p>The Counter Fraud Strategy was approved by the Business Services Committee in February 2020. An annual report has yet to be presented to committee. The Corporate Integrity Group has however been considering how best to collate information from across services for such a report. A fraud awareness training model is in development and is expected to be made available to staff shortly.</p>	<p>Action not yet complete.</p> <p>The recommendation will continue to be monitored as part of the 2021/22 audit.</p>

Action Point	Source Report	Recommendation	Management Action agreed/ Responsible officer	Agreed Target date	Management action taken/ audit update	Audit conclusions
PY8	2018/19 Interim Report	<p>Audit Committee’s consideration of internal audit reports</p> <p>The discussion at Audit Committee meetings can centre on detailed internal audit reports which do not form part of the agenda papers. Only summary reports on each audit assignment are included in the committee’s papers.</p> <p>A decision be taken at the agenda meeting on the internal audit reports likely to attract further scrutiny at committee and to agree to include the associated full internal audit report in the agenda papers. This will enable public access to all the information subject to scrutiny by the committee.</p>	<p>To be included as part of review of audit committee effectiveness.</p> <p>Director of Business Services</p>	April 2020	<p>As with action point, PY1 (audit committee effectiveness), internal audit reports were considered as part of the self-evaluation and as a result, an action was agreed.</p> <p>In response to that action, the audit committee agreed, in March 2021, to continue to receive summary reports from internal audit. These will be submitted in a new format with clearer coverage of key findings, recommendations and management responses.</p>	<p>Action point complete and recommendation closed.</p>

<p>PY 9</p>	<p>2018/19 Interim Report</p>	<p>Outstanding internal audit recommendations</p> <p>Outstanding Internal Audit Recommendations at March 2019 identified 11 recommendations which were outstanding for more than a year and 2 recommendations where the due date had been revised 5 times.</p> <p>Management should have greater oversight of outstanding recommendations and seek alternative solutions to addressing them without minimising impact and importance. At least annually, the audit committee should consider a review of the outstanding recommendations, the associated risks and whether they can be managed differently with a view to strengthening governance overall, and addressing the number of recommendations left in abeyance for a long time</p>	<p>To be included as part of review of audit committee effectiveness.</p> <p>Director of Business Services</p>	<p>May 2020</p>	<p>As with action points PY1 and PY8, outstanding internal audit recommendations were considered as part of the self-evaluation and as a result, an action was agreed</p> <p>In March 2021, proposals for a streamlined report focusing on higher risk areas were agreed.</p> <p>In addition, it was agreed that directors would review existing outstanding recommendations and highlight those which were no longer considered a priority. Thereafter, internal audit will assess the impact on the control environment.</p>	<p>In our view, management should adopt a more risk based approach when initially responding to recommendations.</p> <p>There is also scope to review the role of policy committees. While they have a scrutiny role, they have no oversight of internal audit recommendations affecting services within their remits. They have only tended to become involved when the Audit Committee has initiated a referral.</p> <p>In September 2019, it was agreed that the audit committee would engage with policy committees on the delivery of actions.</p> <p>In October 2020, it was further agreed that there would be discussion sessions between the chairs and vice chairs of the audit committee and policy committees to strengthen connections between committees.</p> <p>In the absence of the above, it is now</p>
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						<p>intended that the chair and vice chair of the audit committee will attend policy committees during May and June 2021 as part of the annual governance statement process.</p> <p>The new reporting format should improve monitoring arrangements but other steps involving services and policy committees should also be considered.</p> <p>The recommendation will therefore continue to be monitored as part of the 2021/22 audit.</p>